U S WEST COMMUNICATIONS, INC.
SCHEDULE V - PROPERTY, PLANT AND EQUIPMENT
(Dollars in millions)

ıssification	Balance at beginning of period	Additions at cost(a)	Retire-ments(b)	Other changes(c)	Balance at end of period
Year 1992					
Land and buildings	$2,238.8	$115.7	$15.1	($3.8)	$2,335.6
Central office equipment	9,538.7	953.8	492.4	143.6	10,143.7
Station equipment	326.0	38.4	72.5	13.7	305.6
Outside plant	10,175.3	725.8	73.4	(34.2)	10,793.5
Furniture and office equipment	2,010.2	290.8	566.3	103.0	1,837.7
Other communication equipment	10.7	0.7	0.4	-	11.0
Vehicles and work equipment	511.9	59.0	77.4	0.6	494.1
Plant in service	24,811.6	2,184.2	1,297.5	222.9	25,921.2
Plant under construction	593.5	172.4	-	(163.2)	602.7
Property held for future use	34.7	-	-	(4.7)	30.0
Total	$25,439.8	$2,356.6	$1,297.5	$55.0	$26,553.9
Year 1991					
Land and buildings	$2,182.9	$85.7	$28.9	($0.9)	$2,238.8
Central office equipment	9,007.8	1,032.2	539.7	38.4	9,538.7
Station equipment	604.7	29.8	310.6	2.1	326.0
Outside plant	9,697.6	562.4	92.3	7.6	10,175.3
Furniture and office equipment	1,949.0	298.2	295.6	58.6	2,010.2
^ther communication equipment	47.9	4.6	2.0	(39.8)	10.7
.ıicles and work equipment	482.8	56.0	25.5	(1.4)	511.9
Plant in service	23,972.7	2,068.9	1,294.6	64.6	24,811.6
Plant under construction	511.5	91.0	-	(9.0)	593.5
Property held for future use	25.4	8.3	-	1.0	34.7
Total	$24,509.6	$2,168.2	$1,294.6	$56.6	$25,439.8
Year 1990					
Land and buildings	$2,108.7	$101.8	$24.7	($2.9)	$2,182.9
Central office equipment	8,592.3	859.6	446.7	2.6	9,007.8
Station equipment	1,196.0	34.2	628.8	3.3	604.7
Outside plant	9,277.1	511.0	88.7	(1.8)	9,697.6
Furniture and office equipment	1,796.4	234.4	103.0	21.2	1,949.0
Other communication equipment	46.8	18.0	12.5	(4.4)	47.9
Vehicles and work equipment	465.6	59.5	42.2	(0.1)	482.8
Plant in service	23,482.9	1,818.5	1,346.6	17.9	23,972.7
Plant under construction	324.7	171.7	0.2	15.3	511.5
Property held for future use	26.3	-	-	(0.9)	25.4
Total	$23,833.9	$1,990.2	$1,346.8	$32.3	$24,509.6

..e notes on page 33 are an integral part of this Schedule.

U S WEST COMMUNICATIONS, INC.
SCHEDULE VI - ACCUMULATED DEPRECIATION AND AMORTIZATION
(Dollars in millions)

scription	Balance at beginning of period	Additions charged to expenses	Retire-ments(b)	Other changes(d)	Balance at end of period
Year 1992					
Buildings	$444.5	$63.7	$14.9	$10.6	$503.9
Central office equipment	3,280.9	844.8	491.3	15.1	3,649.5
Station equipment	233.6	17.3	72.4	10.7	189.2
Outside plant	3,564.4	497.9	72.2	(6.9)	3,983.2
Furniture and office equipment	988.1	267.4	566.1	26.4	715.8
Other communication equipment	12.4	2.8	2.2	(6.2)	6.8
Vehicles and work equipment	215.9	41.5	77.4	5.4	185.4
Plant in service	8,739.8	1,735.4	1,296.5	55.1	9,233.8
Property held for future use	0.4	-	-	(0.1)	0.3
Total	$8,740.2	$1,735.4	$1,296.5	$55.0	$9,234.1
Year 1991					
Buildings	$418.7	$75.0	$28.3	($20.9)	$444.5
Central office equipment	3,019.7	786.0	552.2	27.4	3,280.9
Station equipment	496.6	44.6	310.6	3.0	233.6
Outside plant	3,167.9	488.5	91.9	(0.1)	3,564.4
Furniture and office equipment	993.9	258.3	280.7	16.6	988.1
Other communication equipment	9.2	(1.1)	(0.5)	3.8	12.4
hicles and work equipment	194.4	41.5	25.3	5.3	215.9
Plant in service	8,300.4	1,692.8	1,288.5	35.1	8,739.8
Property held for future use	2.6	(2.2)	-	-	0.4
Total	$8,303.0	$1,690.6	$1,288.5	$35.1	$8,740.2
Year 1990					
Buildings	$415.3	$66.8	$43.3	($20.1)	$418.7
Central office equipment	2,729.6	739.1	443.5	(5.5)	3,019.7
Station equipment	1,000.8	120.5	626.4	1.7	496.6
Outside plant	2,836.9	437.2	96.8	(9.4)	3,167.9
Furniture and office equipment	804.9	270.2	100.0	18.8	993.9
Other communication equipment	7.8	2.0	3.1	2.5	9.2
Vehicles and work equipment	191.4	39.0	41.3	5.3	194.4
Plant in service	7,986.7	1,674.8	1,354.4	(6.7)	8,300.4
Property held for future use	2.6	-	-	-	2.6
Total	$7,989.3	$1,674.8	$1,354.4	($6.7)	$8,303.0

e notes on page 33 are an integral part of this Schedule.

U S WEST COMMUNICATIONS, INC.
NOTES TO
SCHEDULES V AND VI
(Dollars in millions)

(a) Additions include allowance for funds used during construction and transfers from telephone plant under construction to telephone plant in service.

(b) Items of telephone plant, when retired or sold, are deducted from the property account at the amount at which they are included therein. Retirements include fully depreciated customer premises wiring of approximately $302 in 1991 and $615 in 1990.

(c) Other changes include (1) prior year reclassifications and (2) adjustments resulting from periodic physical inventories.

(d) Comprised principally of removal costs and salvage received from disposals.

U S WEST COMMUNICATIONS, INC.
SCHEDULE VIII - VALUATION AND QUALIFYING ACCOUNTS
(Dollars in millions)

scription	*Balance at beginning of period*	*Charged to expenses (a)*	*Charged to other accounts*	*Deductions (b)*	*Balance at end of period*
ALLOWANCE FOR CREDIT LOSSES					
Year 1992	$32.0	55.0	0.7	60.9	$26.8
Year 1991	$29.0	73.7	(0.8)	69.9	$32.0
Year 1990	$33.7	64.3	-	69.0	$29.0

(a) Does not include amounts charged directly to expense. These amounts were $8.9, $7.2 and $5.7 respectively for 1992, 1991 and 1990.

(b) Represents customer accounts written off during the period, net of recoveries.

U S WEST COMMUNICATIONS, INC.
SCHEDULE IX - SHORT TERM DEBT
(Dollars in millions)

Description	*Balance at end of period*	*Weighted average interest rate at end of period*	*Maximum amount outstanding during period (a)*	*Average amount outstanding during period (b)*	*Weighted average interest rate during period (c)*
Year 1992					
Bank loans	$0.3	6.33%	$0.3	$0.3	6.67%
Commercial paper	270.1	3.48%	441.3	224.7	4.12%
Other	0.2	9.17%	0.3	0.2	9.05%
Current portion of long-term debt	279.0	N/A	N/A	N/A	N/A
Total	$549.6			$225.2	
Year 1991					
Bank loans	$1.4	7.00%	$1.4	$0.9	8.20%
Commercial paper	267.0	5.00%	638.8	420.9	6.34%
Other	-	-	-	-	
Current portion of long-term debt	26.6	N/A	N/A	N/A	N/A
Total	$295.0			$421.8	
Year 1990					
Bank loans	$5.2	9.75%	$5.2	$1.0	8.53%
Commercial paper	377.7	8.38%	452.8	332.1	8.33%
Other	-	-	16.5	7.7	12.49%
Current portion of long-term debt	7.7	N/A	N/A	N/A	N/A
Total	$390.6			$340.8	

(a) Computed based on the amount outstanding at month end.

(b) Computed as the year-to-date cumulative monthly average (which is based on the daily balances outstanding) divided by 12 months.

(c) Computed as the interest accrued year-to-date divided by the weighted average amount outstanding.

U S WEST COMMUNICATIONS, INC.
SCHEDULE X - SUPPLEMENTARY INCOME STATEMENT INFORMATION
(Dollars in millions)

Item	Charged to costs and expenses 1992	1991	1990
Gross Receipts Taxes	$71.3	$91.3	$95.3
Property Taxes	253.5	280.1	274.1
Maintenance and Repairs	1,495.8	1,399.8	1,424.5

ATTACHMENT 2A

ATTACHMENT 2A

ERRATA TO 1994 ANNUAL ACCESS CHARGE TARIFF FILINGS
OPEB EXOGENOUS COSTS

REVENUE EFFECT	COMMON LINE	TRAFFIC SENSITIVE	TRUNKING	INTER EXCHANGE	TOTAL
Depreciation Expense	6,957	19,526	23,189	6	49,678
Expense Less Depreciation	(6,311,994)	(3,971.017)	(4,772,192)	(125,700)	(15,180,903)
Taxes Less F.I.T.	(12,930)	1,939	(2,767)	0	(13,758)
Net Return	(45,089)	3,367	(10,115)	1	(51,836)
F.I.T.	(34,428)	(3,218)	(16,245)	(1)	(53,892)
Uncollectable Rev.& Oth. Adj.	3,030	(452)	(6,574)	0	(3,996)
Revenue Effects	(6,394,454)	(3,949,855)	(4,784,704)	(125,694)	(15,254,707)

RATE BASE					
Total Plant in Service	204,042	247,431	424,188	80	875,741
Other Rate Base Items	(341,072)	(91,888)	(264,972)	(22)	(697,954)
Depreciation Reserve	179,458	90,828	189,985	33	460,304
Accum. Deferred Inc. Tax	84,306	34,788	59,143	13	178,250
Net Rate Base	(400,794)	29,927	(89,912)	12	(460,767)

ATTACHMENT 2B

ATTACHMENT 2B

OPEB EXOGENOUS COSTS
($000)

1.	OPEB Interstate Expense	46,268
2.	OPEB Interstate Capital	523
3.	OPEB Interstate Exogenous Cost Change	46,791
4.	Common Line	18.856
5.	Traffic Sensitive	23,005
6.	Special Access	4,673
7.	Interexchange	257

NOTE:
Line 1. U S WEST Interstate Section 1, Workpaper 7, Line 5.
Line 2. U S WEST Interstate Section 1, Workpaper 7, Line 6.
Line 3. U S WEST Interstate Section 1, Workpaper 7, Line 7.
Lines 4, 5, 6 & 7 allocated to basket by a Part 69 model.

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ATTACHMENT 3

AS FILED

FORM 10-K

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 1993

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from_______to _______

Commission file number 1-3040

U S WEST Communications, Inc.

A Colorado Corporation

IRS Employer No. 84-0273800

1801 California Street, Denver, Colorado 80202
Telephone Number (303) 896-3099

Securities registered pursuant to Section 12(b) of the Act:

Title of each class		Name of each exchange on which registered
Forty Year	3 1/4% Debentures due February 1, 1996	New York Stock Exchange

Registered pursuant to Section 12 (g) of the Act: None.

THE REGISTRANT, AN INDIRECT, WHOLLY-OWNED SUBSIDIARY OF U S WEST, INC., MEETS THE CONDITIONS SET FORTH IN GENERAL INSTRUCTION J(1)(a) AND (b) OF FORM 10-K AND IS THEREFORE FILING THIS FORM WITH REDUCED DISCLOSURE FORMAT PURSUANT TO GENERAL INSTRUCTION J(2).

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No_

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrants knowledge in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ***

*** Not applicable in that registrant is an indirect, wholly-owned subsidiary.

The total number of pages contained in this report, including exhibits, is 40 and the exhibit index is on page 31.

U S WEST COMMUNICATIONS, INC.
FORM 10-K
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	PART II	
5.	Market for the Registrant's Common Equity and Related Shareowner Matters (Inapplicable).	
6.	Selected Financial Data (Omitted pursuant to General Instruction J(2)).	
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	PART III	
10.	Directors and Executive Officers of the Registrant (Omitted pursuant to General Instruction J(2)).	
11.	Executive Compensation (Omitted pursuant to General Instruction J(2)).	
12.	Security Ownership of Certain Beneficial Owners and Management (Omitted pursuant to General Instruction J(2)).	
13.	Certain Relationships and Related Transactions (Omitted pursuant to General Instruction J(2)).	
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U S WEST COMMUNICATIONS, INC.
FORM 10-K

PART I

ITEM 1. BUSINESS

General

U S WEST Communications, Inc. (the "Company") is incorporated under the laws of the State of Colorado and has its principal offices at 1801 California Street, Denver, Colorado, 80202, telephone number (303) 896-3099. The Company is an indirect, wholly-owned subsidiary of U S WEST, Inc. ("U S WEST").

The Company was formed January 1, 1991, when Northwestern Bell Telephone Company ("Northwestern Bell") and Pacific Northwest Bell Telephone Company ("Pacific Northwest Bell") were merged into The Mountain States Telephone and Telegraph Company ("Mountain Bell"), which simultaneously changed its name to U S WEST Communications, Inc. U S WEST acquired ownership of Mountain Bell, Northwestern Bell and Pacific Northwest Bell on January 1, 1984, when American Telephone and Telegraph Company ("AT&T") transferred its ownership interests in these three wholly-owned operating telephone companies to U S WEST. This divestiture was made pursuant to a court approved consent decree entitled the Modification of Final Judgement ("MFJ"), which arose out of an antitrust action brought by the United States Department of Justice against AT&T.

Company Operations

The Company provides telecommunications services in the states of Arizona, Colorado, Idaho, Iowa, Minnesota, Montana, Nebraska, New Mexico, North Dakota, Oregon, South Dakota, Utah, Washington and Wyoming (the "14 state region"). The Company serves approximately 80% of the population in these states and approximately 40% of the land area. Beginning in 1993, the Company entered into a process to sell certain rural exchanges over the next several years. It is currently estimated that such sales could amount to approximately 2.0% of total network access lines. At December 31, 1993, the Company had approximately 13,843,000 telephone network access lines in service, a 3.7% increase over year end 1992.

Under the terms of the MFJ, the 14 state region was divided into 29 geographical areas called local access and transport areas ("LATAs") with each LATA generally centered on a metropolitan area or other identifiable community of interest. The principal types of telecommunications services offered by the Company are (i) local service, (ii) intraLATA long distance service and (iii) exchange access service (which connects customers to the facilities of interLATA service providers). For the year ended December 31, 1993, local service, exchange access service and intraLATA long distance service accounted for 44%, 33% and 17%, respectively, of the sales and other revenues of the Company. In 1993, revenues from a single customer, AT&T, accounted for approximately 13% of the Company's sales and other revenues.

Regulation

The Company is subject to varying degrees of regulation by state commissions with respect to intrastate rates and service, and access charge tariffs. Under traditional rate of return regulation, intrastate rates are generally set on the basis of the amount of revenues needed to produce an authorized rate of return (refer to page 9 of Management's Discussion).

ITEM 1. BUSINESS (continued)

Regulation (continued)

The Company has sought alternative forms of regulation ("AFOR") plans which provide for competitive parity, enhanced pricing flexibility and improved capability in bringing to market new products and services. In a number of states where AFOR plans have been adopted, such actions have been accompanied by requirements to refund revenues, reduce existing rates or upgrade service, any of which could have adverse short-term effects on earnings. Similar agreements may have resulted under traditional rate of return regulation (refer to pages 12 and 13 of Management's Discussion).

The Company is also subject to the jurisdiction of the Federal Communications Commission ("FCC") with respect to interstate access tariffs (that specify the charges for the origination and termination of interstate communications) and other matters. The Company's interstate services have been subject to price cap regulation since January 1991. Price caps are a form of incentive regulation and, ostensibly, limit prices rather than profits. However, the FCC's price cap plan includes sharing of earnings in excess of authorized levels with interexchange carriers. The Company believes that competition will ultimately be the determining factor in pricing telecommunications services. In January 1994, the FCC announced that it will begin reviewing its current form of regulation.

In September, 1993, the FCC adopted licensing rules for Personal Communications Services ("PCS") and announced that it would auction the spectrum frequencies available for PCS in late 1994. PCS offers users mobile voice and data communications capabilities similar to existing analog cellular service. U S WEST intends to pursue PCS opportunities as they become available.

Competition

Historically, communications, entertainment and information services were provided by different companies in different industries. The convergence of these technologies is changing both the competitive environment and the way the Company does business. This convergence, which is being fueled by technological advances, will lead to more intense competition from companies with which the Company has not historically competed.

The Company's principal current competitors are competitive access providers ("CAPs"). Competition from CAPs is currently limited to providing large business customers (with high-volume traffic) private line access to the facilities of interexchange carriers. In coming years, CAPs could also become significant competitors for other local exchange services. MCI announced plans in early 1994 to build fiber-optic rings and local switching infrastructures in major metropolitan markets, hence providing the ability to compete directly with the local telephone company. Additionally, AT&T's entrance into the cellular communications market through its proposed acquisition of McCaw Cellular Communications, Inc. has the potential to create increased competition in local exchange as well as cellular services. The loss of local exchange customers to competitors would affect multiple revenue streams, including those related to local and access services, and long distance network services, and could have a material, adverse effect on the Company's operations.

ITEM 1. BUSINESS (continued)

Competition (continued)

In addition to CAPs and providers of wireless services, a major potential source of future competition includes cable television companies which may offer telecommunications and other information services in addition to existing video services.

Competition from long distance companies continues to erode the Company's market share of intraLATA long distance services such as WATS and "800." These revenues have declined over the last several years as customers have migrated to interexchange carriers that have the ability to offer these services on both an intraLATA and interLATA basis. The Company is prohibited from providing interLATA long distance services.

The actions of state and federal public policymakers will play an important role in determining how increased competition affects the Company. The Company is working with regulators and legislators to help ensure that public policies keep pace with our rapidly changing industry and allow the Company to bring new services to the marketplace.

The Company supports regulatory reform. It is increasingly apparent that the legal and regulatory framework under which the Company operates, which includes restrictions on equipment manufacturing, prohibitions on cross-ownership of cable television by telephone companies and the provision of cable boundaries, limits both competition and consumer choice. The Company believes that it is in the public interest to lift these restrictions and to place all competitors under the same rules to ensure the industry's technological development and long-term financial health.

Competitive Strategy

The Company intends to implement its competitive strategy by focusing on three key objectives: 1) business growth through the development of broadband networks; 2) customer loyalty through continuous improvement in customer service; and 3) improved productivity through systems re-engineering and other cost controls.

PART I

ITEM 2. PROPERTIES

The properties of the Company do not lend themselves to description by character and location of principal units. At December 31, 1993, the percentage distribution of total net telephone plant by major category for the Company was as follows:

a. Connecting lines not on customers' premises	36%
b. Central office equipment	39%
c. Land and buildings (occupied principally by central offices)	15%
d. General equipment and vehicles	9%
e. Miscellaneous equipment and inside wiring (substantially all of which are on the premises of customers) ...	1%

At December 31, 1993, substantially all of the installations of central office equipment were located in buildings owned by the Company situated on land which it owns in fee, while many garages, and administrative and business offices were in leased quarters.

Total investment in telephone plant increased to $28.0 billion at December 31, 1993, from $26.6 billion at December 31, 1992, after giving effect to retirements, but before deducting accumulated depreciation. The Company's 1993 capital expenditures of $2.2 billion were substantially devoted to the continued modernization of rural and urban telephone plant, including investments in fiber optic cable and the conversion of central offices to digital technology, in order to improve customer services and network productivity. 1994 capital expenditures are anticipated to be $2.3 billion and the majority of these are expected to be financed through internally generated funds.

PART I

ITEM 3. LEGAL PROCEEDINGS

With respect to lawsuits, proceedings and other claims pending at year-end, it is the opinion of management that after final disposition, any monetary liability or financial impact to the Company beyond that provided at year-end, would not be material to the consolidated financial position of the Company.

PART II

MANAGEMENT'S DISCUSSION. *(Dollars in millions)*

RESULTS OF OPERATIONS

	1993	1992	Change $	Change %
Operating revenues				
Local service	$3,829.1	$3,674.3	$154.8	4.2
Interstate access service	2,146.9	2,046.9	100.0	4.9
Intrastate access service	682.0	672.8	9.2	1.4
Long distance network service	1,441.5	1,419.7	21.8	1.5
Other services	556.4	510.0	46.4	9.1
Operating expenses				
Employee-related costs	2,916.6	2,862.6	54.0	1.9
Other operating expenses	1,599.4	1,556.2	43.2	2.8
Taxes other than income taxes	379.8	348.1	31.7	9.1
Depreciation and amortization	1,806.5	1,735.4	71.1	4.1
Restructuring charge	880.0	-	880.0	-
Interest expense	373.8	401.5	(27.7)	(6.9)
Other expense	13.0	34.9	(21.9)	(62.8)
Income before income taxes, extraordinary items and cumulative effect of change in accounting principles	686.8	1,385.0	(698.2)	(50.4)
Provision for income taxes	251.5	435.0	(183.5)	(42.2)
Income before extraordinary items and cumulative effect of change in accounting principles	435.3	950.0	(514.7)	(54.2)
Extraordinary items (net of tax)				
Discontinuance of SFAS No. 71	(3,040.9)	-	(3,040.9)	-
Early extinguishment of debt	(77.2)	-	(77.2)	-
Cumulative effect of change in accounting principles (accounting for postemployment and postretirement benefits), net of tax	-	(1,724.4)	1,724.4	-
Net loss	($2,682.8)	($774.4)	(1,908.4)	-

Income before extraordinary items and cumulative effect of change in accounting principles decreased $514.7 compared to 1992. Absent the effects of a restructuring charge, which reduced 1993 income by approximately $534.0, and the cumulative effect on deferred taxes of the 1993 federally mandated increase in income tax rates which reduced income by $54.0, income before extraordinary items and cumulative effect of change in accounting principles increased by $73.3 or 7.7%. The extraordinary items relate to the discontinuance of accounting for the Company's operations as a regulated enterprise and the refinancing of debt to obtain lower financing costs prospectively. The Company had a net loss in the prior year due to the adoption of "Employer's Accounting for Postretirement Benefits Other than Pensions" (SFAS No. 106) and "Employer's Accounting for Postemployment Benefits" (SFAS No. 112).

MANAGEMENT'S DISCUSSION. *(Dollars in millions)*

OPERATING REVENUES

Total operating revenues were $8,655.9, a $332.2, or 4.0%, increase compared to the prior year. In the tables below, price changes primarily represent the aggregate effects of price changes resulting from regulatory proceedings and growth represents increased market penetration through both increased access lines and additional sales to existing customers. Different regulatory commissions govern the interstate and intrastate jurisdictions, resulting in varying price and refund impacts.

Local Service

Price Changes	*Higher Refunds*	*Growth*	*Other*	*Increase $*	*%*
$ (5.7)	$ (10.6)	$ 175.5	$ (4.4)	$ 154.8	4.2

Local service increased $154.8 primarily due to business growth. The Company added 498,000 access lines, a record 3.7% increase over the December 31, 1992, level.

Interstate Access Service

Price Changes	*Lower Refunds*	*Growth*	*Other*	*Increase $*	*%*
$ (71.5)	$ 5.8	$ 175.4	$ (9.7)	$ 100.0	4.9

The increase in interstate access service of $100.0 was primarily a result of increased growth partially offset by the effects of price reductions. Interstate access minutes of use increased 8.5% over the same period in 1992. Interstate access prices were reduced by approximately $60 annually, effective July 1, 1993, in addition to $90, effective July 1, 1992, due to FCC mandated changes which resulted in a cost shift to intrastate jurisdictions. In addition to price changes resulting from FCC regulatory actions, an increasingly competitive market for access services will continue to drive prices down.

Intrastate Access Service

Price Changes	*Lower Refunds*	*Growth*	*Other*	*Increase $*	*%*
$ (18.1)	$ 8.0	$ 19.3	$ 0.0	$ 9.2	1.4

The increase in intrastate access service revenues of $9.2 was due to increased growth and lower refunds, partially offset by price decreases.

PART II

MANAGEMENT'S DISCUSSION. *(Dollars in millions)*

OPERATING REVENUES (Continued)

Long Distance Network Service

Price Changes	*Higher Refunds*	*Growth*	*Other*	*Increase $*	*%*
$ (7.0)	$ (0.6)	$ 31.2	$ (1.8)	$ 21.8	1.5

Long distance network service increased $21.8 primarily due to increased growth. This increase was partially offset by price decreases and the impacts of competition, particularly in the Wide Area Telephone Service ("WATS") and 800 services.

Other Services

Other services revenue increased $46.4 as a result of growth in billing and collection services and continued market penetration in voice messaging services.

OPERATING EXPENSES

Employee-related costs increased $54.0 over 1992. The increase was a result of costs associated with customer service initiatives and a lower pension credit in the current year. Increases in basic compensation costs, including overtime primarily related to an increase in customer demand and flood damage in the mid-western states, were essentially offset by the effects of work-force reductions. In 1993, 2,500 employees exited the business under the 1991 restructuring plan. These increases were partially offset by reduced health care costs.

Other operating expenses increased $43.2 over the same period last year. The increases were primarily related to increases in network software costs and advertising expenses.

The increase of $31.7 in taxes other than income taxes is a result of adjustments made in 1992 for resolution of certain long-standing appeals.

Depreciation and amortization expense increased over the same period last year by $71.1. The increase is attributable to a higher depreciable plant base and the approval of changed depreciation rates and amortizations by the FCC and certain state jurisdictions. A depreciation adjustment in the prior year resulting from an alternative form of regulation implemented in the state of Washington partially offset the increase. Prior to the discontinuance of SFAS No. 71, the Company's depreciation expense was based on regulator approved depreciation rates. The Company's discontinuance of SFAS No. 71 has resulted in the use of shorter asset lives (for financial reporting purposes) to more closely reflect the economic lives of telephone plant. With these new, economic lives, the Company expects depreciation expense to increase in 1994 by approximately 3 to 5 percent over the 1993 amount. The Company continues to pursue higher regulator-approved depreciation rates and improved capital recovery within the regulatory environment.

PART II

MANAGEMENT'S DISCUSSION. *(Dollars in millions)*

OPERATING EXPENSES (continued)

The Company's 1993 results reflect a pretax restructuring charge of $880 million. The restructuring charge includes specific incremental and direct costs which can be estimated with reasonable accuracy and are clearly identifiable with the related plan.

The restructuring plan is designed to provide faster, more responsive customer services while reducing the costs of providing these services. As part of the plan, the Company will develop new systems that will enable it to monitor networks to reduce the risk of service interruptions, activate telephone service on demand, provide automated inventory systems and centralize its service centers so that customers can have their telecommunications needs resolved with one phone call. The Company will also reduce its work force by approximately 8,000 employees by the end of 1996 (in addition to a remaining reduction of 1,000 employees pursuant to the restructuring plan announced in 1991) and consolidate the operations of its existing 560 customer centers into 26 customer centers in ten cities.

Following is a schedule of costs included in the restructuring charge:

Employee separation	$235
Real estate	120
Relocation	105
Retraining	60
Systems development	360
	$880

Employee separation costs include severance payments, healthcare coverage and postemployment education benefits. Real estate costs include preparation costs for the new service centers. The relocation and retraining costs are related to moving employees to the sites of the new service centers and retraining employees on the new methods and systems required in the new, restructured mode of operation. Systems development includes the replacement of existing, single-purpose systems with new systems designed to provide integrated, end-to-end customer service. There are no costs for asset write-downs included in the restructuring charge. The work-force reductions would not be possible without the development and installation of the new systems which will eliminate the current, labor-intensive interfaces between existing systems.

The estimated annual cash expenditures relating to the restructuring plan are $365, $300 and $215 in 1994, 1995 and 1996, respectively. In addition to these expenditures, the Company anticipates incremental capital expenditures related to the restructuring plan of $450 over the next three years. The restructuring plan is estimated to reduce cumulative total employee and related costs by approximately $525 during the next three years, starting in 1994. These savings are expected to be largely offset by higher employee salaries and wages for the remainder of the work force.

PART II

MANAGEMENT'S DISCUSSION. *(Dollars in millions)*

OPERATING EXPENSES (continued)

The Company's 1991 restructuring plan was established to partially offset the effects of future wage, salary and benefit increases. The plan will result in a work-force reduction of approximately 6,000 employees, of which approximately 5,000 employees have left the Company as of December 31, 1993. The 1991 restructuring charge was $240, of which approximately $56 is unused at December 31, 1993.

INTEREST AND OTHER

Interest expense decreased $27.7 primarily as a result of the refinancing of debt in order to take advantage of lower interest rates. Additional detail of the debt refinancing is provided on page 24 in Note 7 of the Notes to Consolidated Financial Statements.

Other expense decreased due to the gain on the sale of several small exchanges and a reversal of accrued interest based on settlement with several interexchange carriers related to the 89/90 monitoring period, both occurring in the current year. Other items impacting this decrease were a favorable Internal Revenue Service settlement, a charge for the refinancing of debt and the impacts of litigation, all occurring in the prior year.

PROVISION FOR INCOME TAXES

Excluding the effects of the restructuring charge, income tax expense increased $162.9 over the same period last year.

The increase in the effective tax rate ("ETR") from 31.4 percent to 36.6 percent resulted primarily from the $54.0 cumulative effect on deferred taxes of the 1993 federally mandated increase in income tax rates and the ongoing effects of discontinuing SFAS No. 71, partially offset by the tax effects of the restructuring charge (refer to Note 4 on page 22 of the Notes to Consolidated Financial Statements). In 1994, the ETR is expected to increase to approximately 37.5 percent due to the full year ongoing impact of discontinuing SFAS No. 71.

In 1993, the Company implemented SFAS No. 109, "Accounting for Income Taxes." Adoption of this new standard did not have a material effect on the Company's financial position or results of operations, primarily because of the Company's 1989 adoption of SFAS No. 96 which reflects deferred income taxes at current income tax rates.

OTHER ITEMS

Alternative Forms of Regulation ("AFOR") and Regulatory Activity

The Company has sought AFOR plans which provide for competitive parity, enhanced pricing flexibility and improved capability in bringing to market new products and services. In addition to the FCC's price cap plan, the Company has existing AFOR plans in the states of Minnesota, Washington, Oregon, Colorado, Idaho, Nebraska, North Dakota and South Dakota. In a number of states where AFOR plans have been adopted, such actions have been accompanied by agreements to refund revenues, reduce existing prices or upgrade service.

MANAGEMENT'S DISCUSSION. *(Dollars in millions)*

OTHER ITEMS (continued)

Alternative Forms of Regulation ("AFOR") and Regulatory Activity (continued)

On August 3, 1993, the FCC announced that it will require that certain telephone companies, including the Company, allow competitive access providers to interconnect directly to a telephone company's switching equipment. The decision extends the current collocation requirement applicable to special access services to local transport for switched access services. The effect of this decision will be to increase competition and lower prices for interstate access services provided to interexchange carriers. The FCC has granted local telephone companies subject to this requirement additional pricing flexibility.

There are pending regulatory actions in local regulatory jurisdictions which call for price decreases, refunds or both. In one such instance, the Utah Supreme Court has remanded a Utah Public Service Commission ("PSC") order to the PSC for reconsideration, thereby establishing two exceptions to the rule against retroactive ratemaking: 1) unforeseen and extraordinary events and 2) misconduct. The Commission's initial order denied a refund request from interexchange carriers and other parties related to the Tax Reform Act of 1986. If the Commission finds that either of the exceptions apply, the Company could be liable for refunds, although at this time any such amount is not reasonably estimable since the case is still in the discovery process.

Discontinuance of SFAS No. 71

The Company incurred a non-cash, extraordinary charge of $3.0 billion, net of an income tax benefit of $2.3 billion, in conjunction with its decision to discontinue accounting for its operations in accordance with SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation," as of September 30, 1993. SFAS No. 71 generally applies to regulated companies that meet certain requirements, including a requirement that a company be able to recover its costs, competition notwithstanding, by charging its customers at prices established by its regulators. The Company's decision to discontinue the application of SFAS No. 71 was based on the belief that competition, market conditions and the development of broadband technology, more than prices established by regulators, will determine the future revenues of the Company. As a result of this change, the remaining asset lives of the Company's telephone plant have been shortened to more closely reflect the useful (economic) lives of such plant. The Company's accounting and reporting for regulatory purposes are not affected by the change. For additional detail, refer to Note 5 on page 23 in the Notes to Consolidated Financial Statements.

MANAGEMENT'S DISCUSSION. *(Dollars in millions)*

OTHER ITEMS (continued)

Early Extinguishment of Debt

During 1993, the Company refinanced long-term debt issues aggregating $2.7 billion in principal amount. These refinancings allowed the Company to take advantage of favorable interest rates. Extraordinary costs associated with the redemptions reduced 1993 net income by $77.2. Additional information is provided in Note 7 on page 24 in the Notes to Consolidated Financial Statements.

Sale of Certain Rural Exchanges

Beginning in 1993, the Company entered into a process to sell certain rural exchanges over the next several years. It is currently estimated that such sales could amount to approximately 2.0% of total network access lines.